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UNCLAS HARARE 000152

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: EPET EFIN ECON ZI
SUBJECT: ExxonMobil tells GOZ to cut fuel subsidy

Sensitive but unclassified.

¶1. (SBU) Summary: A visiting ExxonMobil delegation recently urged the GOZ to stop subsidizing fuel consumption, which has completely overburdened the country's foreign exchange assets. The delegation suggested a more targeted support mechanism for public transport and critical services that would soften the blow of a 5-6 fold increase in the fuel price. End Summary.

¶2. (U) ExxonMobil Africa and Middle East Marketing Director John Bell led a group of company executives to Zimbabwe in the week of Jan. 13 for talks with the GOZ. A steep slide in the Zimdollar has meant the GOZ now subsidizes more than 90 percent of the cost of commercial and retail fuel (about US$ 1 million/day), a burden it can no longer meet. The country has suffered severe shortages over the past 5 weeks. Mobil is one of 5 foreign oil companies that share the distribution business with 17 local operators.

¶3. (SBU) In a Jan. 15 meeting with Finance Minister Herbert Murerwa, the ExxonMobil team argued that the parastatal National Oil Company of Zimbabwe (NOCZIM) should stop subsidizing the fuel it imports, which would trigger a 5-6 fold rise in the pump price. Multinational and other oil companies would pay the Zimdollar parallel rate equivalent to NOCZIM and charge a slightly higher amount at the pump. (The Confederation of Zimbabwe Industries had earlier backed away from a proposal for a two-tier fuel-pricing scheme over fear of leakages.) Instead, the GOZ could underwrite part of the cost of public transport and other services. Zimbabwe's artificially low fuel price -- about US$ .20/gallon -- promotes waste, profiteering and overconsumption. Frustratingly, Murerwa was noncommittal in the absence of agreement from President Mugabe.

Comment

¶4. (SBU) While ExxonMobil's arguments make sense, the GOZ is concerned with broader implications. Such a dramatic rise in the fuel price would be unpopular and fan the country's high inflation rate, already 198 percent officially and 300-400 percent unofficially. It would lock in fuel at an exchange rate of around Z$ 1,500/US$ 1, a market devaluation the GOZ refuses to recognize. And it would make mincemeat of the GOZ's extensive price controls, the main tenant of its "macroeconomic policy."

Sullivan